

GETTING OUT OF DEBT



A mini-lesson for:

- high school teachers
- adult and community educators
- consumers

This mini-lesson includes learning objectives, background information, an activity, worksheet and sources of additional information.

OBJECTIVES

Learners will:

- list the danger signals of too much debt
- design a debt management plan
- consider loan consolidation and debt management tools

When bills pile up and your spending is out of control it is time to take action to get your financial affairs back on track. People sometimes experience financial crises due to job loss, a serious illness, divorce or death of a spouse. Others simply fail to take control of their income and spending behavior. Either way, the problem seldom fixes itself, but with careful planning, you can manage a difficult financial situation.

Danger Signals Of Too Much Debt

The following danger signals can indicate financial problems ahead.

- Are you continually late in making your payments?
- Are you near the dollar amount limits of your credit cards?
- Do you make minimum payments on credit card balances?
- Do you find it difficult to save?
- Do you have to use savings to pay current bills?
- Are you using a credit card because you do not have enough cash?
- Have you been denied credit?
- Do you use a credit line or cash advance from one credit card to make payments on another?

How To Get Out Of Financial Trouble

If you answered yes to one or more of the danger signals, consider your options before creditors take legal action against you. Your wages could be garnished or you could be forced into bankruptcy. Some people resolve their financial problems with discipline and self control. Others seek help from non-profit financial counseling services. Whether you do it yourself or seek help from professional credit counselors, your debt management plan will include these steps.

- **Review your income and expenses.** A careful analysis of your household income and expenses is the first step in digging out of debt. You can use the Fact Sheet, **Your Income and Expense Statement**.

See our Web Site on What is a Budget? at <http://www.in.gov/dfi/education/budget.htm>.

- **Determine who and how much you owe.** Assemble the following information for each of your loan accounts.
 - name, address and phone number of creditor
 - attorney or collection agency address and phone number
 - your account number
 - balance owed, monthly payments, payment due date
 - amount and date last paid
 - type of legal action taken, such as garnishment or repossession
 - co-signature or collateral securing the loan
 - annual percentage rate of interest on each loan
- **Set up a plan for paying your debts.** Figure out how you can repay each creditor and how long it will take to repay the debt. **See the Fact Sheet, Guidelines for Setting Credit Limits in Activities or at** http://www.in.gov/dfi/education/MiniLessons/guidelines_for_setting_credit_li.htm.

The following options may help you decide when and how much you can repay:

- Analyze your income and expense worksheet, looking for ways to reduce current expenses. Even small amounts will help.
- Consider selling assets such as stocks, bonds, jewelry, antiques.
- Consider ways to increase household income.
- Consider a home equity loan. This option could put you further in debt unless income and spending habits are modified.
- Consider loan consolidation. This option will reduce your monthly payments but will increase the length of the loan, usually at a higher interest rate.

Financial advisors suggest that you prioritize debts, giving first priority to mortgage, rent and utilities. Second priority is credit cards, unsecured debts, and third priority is medical and hospital bills.

Focus on your financial situation and decide how much money you can pay to each creditor. Keep expenses to a minimum. Avoid additional debt. The goal is to pay off your debts and get back on track financially.

Inform Your Creditors

Now, you are ready to talk to creditors. Contact each creditor before they contact you, and explain your financial situation. Most creditors will work with you if you give them a realistic repayment plan and follow through as promised. Some creditors may even refinance the debt to reduce the size of your monthly payments if they are convinced that you are seriously trying to resolve your financial problems.

Creditors prefer to receive smaller payments rather than no payment, and they prefer not to repossess your goods. If you must send a smaller payment than promised, contact the creditor and explain why. If you keep in contact with them, they are more willing to cooperate.

Loan Consolidation

A debt consolidation loan allows you to pay most of your debts through one monthly payment. Even though the debt consolidation loan simplifies the monthly payment, you may have a larger loan with new credit costs for a longer period of time. This may not be the best solution for you.

Ask yourself whether you can meet the terms and conditions of a consolidation loan. Some companies offer consolidation loans by giving you a second mortgage or home equity line of credit. In this situation you are using your home as collateral. The danger is that if you cannot make payments or are late paying, you could lose your home.

Debt Management Services

If you have serious financial difficulties and cannot find a solution, a non-profit credit counseling service may be able to help. Credit counseling services are provided by organizations designed to help persons with debt problems pay their bills. Some credit counseling services charge small or no fees for helping people develop a spending plan. Consumer Credit Counseling Services, credit unions, banks and housing authorities provide financial counseling. For a list of local non-profit credit counseling centers affiliated with the National Foundation for Consumer Credit, call 1-800-388-2227.

Credit counseling professionals can help you create and use a financial plan. If your income is not sufficient to pay all your debts, they can help you work out a debt repayment plan. With this plan, you deposit money each pay period with the credit counseling service and they pay your bills according to your debt repayment plan. They may also require that you not use any additional credit until you have repaid your present debts, unless approved by your credit counselor.

See our Web Site on Choosing a Credit Counselor at
http://www.in.gov/dfi/education/choosing_a_credit_counselor.htm.

Financial Recovery

Learning to control credit use is not easy, but self discipline is the key. A general guide suggested by financial counselors is that your annual installment debt (excluding mortgage) should be no more than 20% of your take-home pay. Use credit as a convenience but not for impulse buying of things you cannot afford. Avoid using your credit card for cash advances except in an emergency, because you will pay interest from the date you received the cash advance. Pay the balance in full each month when possible, limit the number of cards you use, and keep expenses to a minimum.

When your income is not sufficient to pay all your bills, consider using a credit counselor to help you develop a workable plan to pay your bills, control spending and avoid bankruptcy.

See our Web sites on Help with Credit Problems at
http://www.in.gov/dfi/education/CIhelp_credit_prob.htm.

DISCUSSION QUESTIONS AND TOPICS

1. Why is it important to set your own debt limit?
2. List three or more danger signals of too much debt.
3. Describe steps people can take to get out of debt.
4. Why is it important to contact your creditors and explain your financial situation?
5. What are the advantages and disadvantages of loan consolidation?
6. What are the benefits of using a debt management service?

ACTIVITY

Write a sample letter to a creditor explaining that you do not have the money to make the minimum payment of your debt. Including the following information:

- the reason for the financial problem
- your current income and expenses
- your other financial obligations
- your debt management plan
- how much you will be able to pay back each month

Give students a copy of our Brochures.

Have students complete the Income and Expenses Worksheet.

Have students review and answer Guidelines for Setting Credit Limits

Have students take In Trouble Quiz.

INCOME AND EXPENSES WORKSHEET

Monthly Income (after deductions)

Wages or Salary	\$	_____
Allowance	\$	_____
Child Support	\$	_____
Scholarships/grants	\$	_____
Other	\$	_____

TOTAL INCOME	\$	_____
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Monthly Fixed Expenses

Rent or Mortgage	\$	_____
Cable TV	\$	_____
Savings, regular	\$	_____
Emergency fund	\$	_____
(2 to 3 month's income)		
Retirement Savings	\$	_____
Installment Payments	\$	_____
Other	\$	_____

Monthly Flexible Expenses

Food	\$	_____
Telephone	\$	_____
Gas	\$	_____
Electricity	\$	_____
Water and Sewer	\$	_____
Clothing	\$	_____
Personal Care	\$	_____
Transportation	\$	_____
Gasoline	\$	_____
Credit Card Payments	\$	_____
Medical and Dental	\$	_____
Entertainment	\$	_____
Child Care	\$	_____
Contributions	\$	_____
Other	\$	_____

Periodic Expenses

Taxes		
(not deducted from pay)	\$	_____
Insurance		
(car, health, home, life)	\$	_____
School Tuition	\$	_____
Maintenance	\$	_____
Vacation	\$	_____
Memberships	\$	_____
Subscriptions	\$	_____
Gifts	\$	_____
Credit Card Payments	\$	_____
Other	\$	_____

TOTAL EXPENSES	\$	_____
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TOTAL INCOME	\$	_____
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Subtract	TOTAL EXPENSES	\$	_____
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BALANCE	\$	_____
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GUIDELINES FOR SETTING CREDIT LIMITS

Answering the following questions can help you decide if you should use credit and how much credit is right for you and your family:

Should you use credit? Most consumers use credit to purchase consumer goods such as cars and major appliances because they have the use of consumer goods while they pay for them. The following questions can help you decide if you want to use credit or cash:

How long will I have to save to pay cash?

How long can I wait to have the product?

Will the price be higher or lower in the future?

Will the convenience or satisfaction I gain from the product be worth the interest costs?

Will the monthly payment fit into my spending plan?

Will the product have value after I have finished paying for it?

Do you limit credit use to amounts that can be repaid from current and future income? A spending plan is a way to control spending and saving so that you can meet your financial goals. It will help you analyze your income in relationship to your expenses. Then you can determine how much money you have available for credit use.

What percentage of your current after-tax income is already committed to credit debt?

List all credit commitments, such as automobile or consumer loans and credit cards. If you plan the use of credit, it can be a useful money management tool.

Have you established a debt limit? It is important that you establish a debt limit based on your financial situation because many lenders are willing to lend more credit than you can afford. Use the debt limit to control your credit use. Generally, financial planners suggest that from 10% to 20% of your disposable income is a realistic credit debt, excluding a mortgage.

How Much? To determine how much credit you can afford, complete the following?

Monthly after-tax income	\$ _____
10% of after-tax income (pay X .1)	\$ _____
20% of after-tax income (pay X .2)	\$ _____
Monthly credit payments owed (not including mortgage)	\$ _____

If your credit payments are less than or equal to **10%** of your after-tax income **you are controlling your credit use.**

If your credit payments are between **10% to 20%**, **you need to carefully evaluate any additional credit.**

If your credit payments are more than **20%**, **you should not take on additional credit.** These figures are general guidelines. Even though no two people spend their incomes the same way, most have some form of debt payments. In order to determine a realistic debt limit figure, consider the amount of current debt you have in comparison to your after-tax income.

IN TROUBLE QUIZ

1. Financial difficulties are commonly caused by overspending.
 - ☐ True
 - ☐ False
2. People with financial difficulties may obtain assistance from the Consumer Credit Counseling Service.
 - ☐ True
 - ☐ False
3. Consolidation loans are mainly used to finance the starting of a new business.
 - ☐ True
 - ☐ False
4. Debt collectors are usually allowed to call you at home before 8 p.m.
 - ☐ True
 - ☐ False
5. Bankruptcy is suggested for people who are a few weeks behind in their credit payments.
 - ☐ True
 - ☐ False
6. A common cause of financial difficulties is:
 - ☐ poor money management habits.
 - ☐ a need for additional career training.
 - ☐ preparing your tax return.
 - ☐ not having enough life insurance.
7. A nonprofit organization that provides financial counseling is:
 - ☐ the Federal Deposit Insurance Corporation.
 - ☐ the Consumer Credit Counseling Service.
 - ☐ the Better Business Bureau.
 - ☐ the National Credit Union Administration.
8. The purpose of a consolidation loan is to:
 - ☐ deduct amounts owed from a person's paycheck.
 - ☐ pay off one credit card amount before others are paid.
 - ☐ combine several debts into one payment.
 - ☐ reduce the amount owed for federal income taxes.
9. An example of a fair debt-collection practice would be to:
 - ☐ pretend to be a salesperson to attempt to collect a debt.
 - ☐ threaten to take legal action to collect the money owed.
 - ☐ call a debtor at work even if personal calls are not allowed.
 - ☐ call a debtor at home before 8 p.m.
10. Bankruptcy refers to the process of:
 - ☐ obtaining permission to be late with credit payments.
 - ☐ obtaining assistance from a credit counseling service.
 - ☐ using court action to reduce or eliminate your debts.
 - ☐ using court action to have payments owed deducted from your paycheck.

IN TROUBLE QUIZ ANSWERS

1. Financial difficulties are commonly caused by overspending.
☐ True
2. People with financial difficulties may obtain assistance from the Consumer Credit Counseling Service.
☐ True
3. Consolidation loans are mainly used to finance the starting of a new business.
☐ False
4. Debt collectors are usually allowed to call you at home before 8 p.m.
☐ True
5. Bankruptcy is suggested for people who are a few weeks behind in their credit payments.
☐ False
6. A common cause of financial difficulties is:
☐ poor money management habits.
7. A nonprofit organization that provides financial counseling is:
☐ the Consumer Credit Counseling Service.
8. The purpose of a consolidation loan is to:
☐ combine several debts into one payment.
9. An example of a fair debt-collection practice would be to:
☐ call a debtor at home before 8 p.m.
10. Bankruptcy refers to the process of:
☐ using court action to reduce or eliminate your debts.

SOURCES OF ADDITIONAL INFORMATION

Articles

Card Attack by Karen Good, *Seventeen*, pp. 68-90, (November 1995).

Consolidate Your House of Cards, *Everybody's Money*, pp. 1-3, (Spring 1993).

How to avoid being swamped by credit-card debt, by Kelly Smith, *Money Magazine*, pp. 40-44, (March 1995).

Watch Out! A Debt Bomb Is Ticking, By Joseph Spiers, *Fortune Magazine*, pp. 60+, (November 27, 1995)

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Pamphlets

National Foundation for Consumer Credit
Phone: 1-800-547-5005.

Are You in a Credit Emergency? - Free

The Federal Trade Commission
Public Reference, Room 130
Washington, DC 20580-0001

A New Credit Identity: A New Credit Repair Scam - Free

Credit Repair: Self-Help May Be Best - Free

Fix Your Own Credit Problems & Save Money - Free

Getting a Loan: Your Home as Security - Free

Home Equity Credit Lines - Free

Vehicle Repossession - Free

Consumer Information Center -7A-4
P.O. Box 100
Pueblo, Colorado 81002

Managing Your Debts: How to Regain Financial Health - \$50

Cooperative Extension Service, Hoke Smith Annex
The University of Georgia
Athens, GA 30602

How To Get Out Of Debt - Free

Cooperative Extension Service
University of Maryland
2309 Computer Science Building
College park, MD 20742-2451

Managing Credit (fact sheet 435) - Free

World Wide Web

Consumer Information Center

Bankruptcy at http://www.pueblo.gsa.gov/cic_text/money/other/bankrupt.txt

Managing Your Debts: How to Regain Financial Health (under credit) at
http://www.pueblo.gsa.gov/cic_text/money/mangdebt.txt

Federal Trade Commission

File Segregation: A New Credit Repair Scam at
<http://www.ftc.gov/bcp/online/pubs/credit/creditid.htm>

Knee Deep in Debt at <http://www.ftc.gov/bcp/online/pubs/credit/kneedeep.htm>

Living paycheck to paycheck? Worried about debt collectors? Can't seem to develop a workable budget, let alone save money for retirement? If this sounds familiar, you may want to consider the services of a credit counseling agency. Usually nonprofit, these agencies work with you to solve your financial problems — sometimes for free. Credit counseling agencies may offer educational materials and workshops, or help you develop a budget.

Many agencies offer services nationwide through local offices or the Internet. Look under "credit counseling" in your telephone directory or your Internet search engine.

HOW CREDIT COUNSELING WORKS

When you meet with a credit counselor, you'll be asked to provide information about your income, expenses, and debts. After analyzing and discussing this information with you, your counselor may recommend that you:

- Continue to handle your finances on your own.
- Participate in agency education classes.
- Enroll in a debt-management/repayment plan.
- Be referred to another organization for assistance.

If you decide to enroll in the debt-management/repayment plan, you will be asked to stop using your credit cards or incurring debt. The counseling agency will negotiate a repayment schedule with your creditors that will generally allow you to get out of debt in two to five years. You'll make one monthly payment to the agency, which will then pay your creditors.

If you are concerned about the effect that credit counseling may have on your credit history, talk to your counselor about it. Some lenders may bring your account current and report it as being paid on time, as long as you stick with the program. Others may report that your account is being repaid through credit counseling or may even report your account as delinquent, both of which can look negative to future creditors. The fact that you met with a credit counselor will never appear on your credit report if you just get budgeting advice and do not choose to enter the debt management plan.

What you shouldn't expect from a debt counselor is legal advice or detailed advice about filing for bankruptcy. For these, you should talk with an attorney.

DEBT REPAYMENT PLANS

If your financial difficulties arise from too much debt or an inability to repay your debts, a credit counseling agency may work out a debt repayment plan for you. In these plans, you deposit money each month with the credit counseling agency. Your deposits are used to

pay your creditors according to a payment schedule the counselor develops with you.

As part of the repayment plan, you may have to agree not to apply for — or use — any additional credit while you're participating in the program. A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Some credit counseling agencies charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time.

A debt repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. A bankruptcy can stay on your report for ten years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments have been missed, or that there are write-offs or other concessions. But a demonstrated pattern of timely payments should help you get credit in the future.

Your debts are either secured or unsecured. Secured debts usually are tied to an asset, like your car for a car loan, or your house for a mortgage. If you stop making payments, the lender can repossess your car or foreclose on your house. Unsecured debts are not tied to any asset. Examples include most credit card debt, bills for medical care, signature loans and debts for other types of services. Debt repayment plans usually cover only your unsecured debt. If your secured debts are not included in the plan, you must continue to make payments to these creditors directly.

CHOOSING AN AGENCY: QUESTIONS TO ASK

If you want to work with a credit counseling agency, interview several. Here are some questions to ask. Check with your state Attorney General, local consumer protection agency and the Better Business Bureau to find out if consumers have filed complaints about the provider you are considering. Any reputable credit counseling agency should send you free information about itself and the services it provides without requiring you to provide any details about your situation. If not, consider that a red flag and go elsewhere for help.

Services and Fees...

- What services do you offer?
- Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?

- In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?
- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What's the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?
- How soon can you take my case?
- Who regulates, oversees and/or licenses your agency? Is your agency audited?
- Will I work with one counselor or several?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- What assurance do I have that information about me (including my address and phone number) will be kept confidential?

Repayment Plan...

- How much do I have to owe to use your services?
- How do you determine the amount of my payment? What happens if this is more than I can afford?
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put in a separate account from operating funds?
- How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- Is a debt repayment plan my only option?
- What if I can't maintain the agreed-upon plan?
- What debts will be excluded from the debt repayment plan?
- Will you help me plan for payment of these debts?
- Who will help me if I have problems with my accounts or creditors?
- How secure is the information I provide to you?

DEPARTMENT OF FINANCIAL INSTITUTIONS

The Department of Financial Institutions regulates Budget Service Companies. These companies perform the same as credit counselors plus they set up a budget with the consumer to pay them each month. The Budget Service Company then makes arrangements with the debtor's creditors and pays them out of the monthly payment amounts received from the debtor. A fee is imposed for that service not to exceed 15% of the amount the debtor agrees to pay through the Budget Service Company. There is a cancellation fee allowed up to \$100.

FOR MORE INFORMATION

The U.S. Consumer Information Center distributes a variety of brochures on credit related issues. To request a Consumer Information Catalog listing these publications, visit the web site at www.pueblo.gsa.gov, call 719-948-4000 or write R. Woods, CIC—8C, PO Box 100, Pueblo, CO 81002.

Your local Cooperative Extension Service office conducts educational programs on credit-related issues and produces a variety of educational materials. Check your local government listings in the phone book for the office nearest you or check the Internet at www.money2000.org.

FTC online complaint form:

<http://www.ftc.gov/bcp/online/complaint.htm>

Although the FTC cannot resolve individual problems for consumer, it can act against a company if it sees a pattern of possible law violations.

<http://www.getoutofdebt.com/Myvesta.org> is a web site with more information on debt problems.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Auto Leasing
Auto Service Contracts
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

CHOOSING A CREDIT COUNSELOR



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880

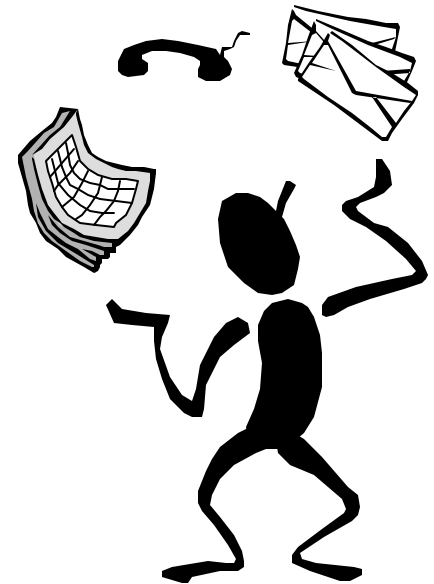


Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud

ANSWERS TO CREDIT PROBLEMS

Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880



Having trouble paying your bills? Getting past due notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car?

You're not alone. Many people face financial crisis at some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming, but often can be overcome. The fact of the matter is that your financial situation doesn't have to go from bad to worse.

If you or someone you know is in financial hot water, consider these options: realistic budgeting, credit counseling from a reputable organization, debt consolidation, or bankruptcy. How do you know which will work best for you? It depends on your level of debt, your level of discipline, and your prospects for the future.

SELF HELP

Developing a Budget: The first step toward taking control of your financial situation is to do a realistic assessment of how much money comes in and how much money you spend. Start by listing your income from all sources. Then, list your "fixed" expenses — those that are the same each month — such as your mortgage payments or your rent, car payments, or insurance premiums. Next, list the expenses that vary, such as entertainment, recreation, or clothing. Writing down all your expenses — even those that seem insignificant — is a helpful way to track your spending patterns, identify the expenses that are necessary, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance, and education.

Your public library has information about budgeting and money management techniques. Low cost budget counseling services that can help you analyze your income and expenses and develop budget and spending plans also are available in most communities. Check your Yellow Pages or contact your local bank or consumer protection office for information about them. In addition, many universities, military bases, credit unions, and housing authorities operate nonprofit counseling programs.

Contacting Your Creditors Contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you.

Dealing with Debt Collectors The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m., after 9 p.m., or at work if the collector knows that your employer doesn't approve of the calls. Collectors may not harass you, make false statements, or use unfair practices when they try to collect a debt. Debt collectors must honor a written request from you to cease further contact.

CREDIT COUNSELING

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service. Your creditors may be willing to accept reduced payments if you enter a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by the counselor. As part of the repayment plan, you may have to agree not to apply for — or use — any additional credit while you're participating in the program.

A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Ask the credit counseling service for an estimate of the time it will take to complete the plan. Some credit counseling services charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time. Some credit counseling services are funded, in part, by contributions from creditors.

While a debt repayment plan can eliminate much of the stress that comes from dealing with creditors and overdue bills, it does not mean you can forget about your debts. You still are responsible for paying any creditors whose debts are not included in the plan. You are responsible for reviewing monthly statements from your creditors to make sure your payments have been received. If your repayment plan depends on your creditors agreeing to lower or eliminate interest and finance charges, or waive late fees, you are responsible for making sure these concessions are reflected on your statements.

A debt repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments may have been late or missed altogether, or that there are write-offs or other concessions. A demonstrated pattern of timely payments will help you obtain credit in the future.

For the nearest office of **Consumer Credit Counseling Service**, call 800-388-2227 or check their web site at www.nfcc.org. **Debt Counselors of America** offer a range of financial services, mostly by Web www.getoutofdebt.org or by phone 800-680-3328. **Genus Credit Management** works only with unsecured debt in amounts exceeding \$2,000, their Web site is www.genus.org or call 888-436-8715.

AUTO AND HOME LOANS

Debt repayment plans usually cover unsecured debt. Your auto and home loan, which are considered secured debt, may not be included. You must continue to make payments to these creditors directly.

Most automobile financing agreements allow a creditor to repossess your car any time you're in default. No notice is required. If your car is repossessed, you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If you can't do this, the creditor may sell the car. If you see default approaching, you may be better off selling the car yourself and paying off the debt. You would avoid the added costs of repossession and a negative entry on your credit report.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure. Most lenders are willing to work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, though, you may have to pay an additional amount toward the past due total. Other lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt. Ask whether additional fees would be assessed for these changes, and calculate how much they total in the long term.

If you and your lender cannot work out a plan, contact a housing counseling agency. Some agencies limit their counseling services to homeowners with FHA mortgages, but many offer free help to any homeowner who's having trouble making mortgage payments. Call the local office of the Department of Housing and Urban Development or the housing authority in your state, city, or county for help in finding a housing counseling agency near you.

DEBT CONSOLIDATION

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Think carefully before taking this on. These loans require your home as collateral. If you can't make the payments — or if the payments are late — you could lose your home.

The costs of these consolidation loans can add up. In addition to interest on the loan, you pay "points." Typically, one point is equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

BANKRUPTCY

Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, making it difficult to acquire credit, buy a home, get life insurance, or sometimes, get a job. However, it is a legal procedure that offers a fresh start for people who can't satisfy their debts.

There are two kinds of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal court. There is a filing fee and Attorney fees are additional.

Chapter 13: Also known as reorganization, Chapter 13 allows debtors to keep property, like a mortgaged house or a car, that they otherwise might lose. Reorganization may allow you to pay off a default during a three-to-five-year period, rather than surrender any property.

Chapter 7: Known as straight bankruptcy, Chapter 7 involves liquidation of all assets that are not exempt in your state. Exempt property may include work-related tools and basic household furnishings. Some of your property may be sold by a court-appointed official or turned over to your creditors. You can file for Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow people to keep certain assets, although exemption amounts vary among states. Note that personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. And unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it. See our brochure on What is Bankruptcy?

DAMAGE CONTROL

Turning to a business that offers help in solving debt problems may seem like a reasonable solution when your bills become unmanageable. Be cautious. Before you do business with any company, check it out with your local consumer protection agency or the Better Business Bureau in the company's location.

Some businesses that offer debt counseling and reorganization plans may charge high fees and fail to follow through on the services they sell. Others may misrepresent the terms of a debt consolidation loan, failing either to explain certain costs or to mention that you're signing over your home as collateral. Businesses advertising voluntary debt reorganization plans may not explain that the plan is a Chapter 13 bankruptcy, tell you everything that's involved, or help you through what can be a complex and lengthy legal process.

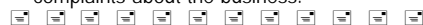
In addition, some companies guarantee you a loan if you pay a fee in advance. The fee may range from \$100 to several hundred dollars. Resist the temptation to follow up on advance-fee loan guarantees. They may be illegal. Many legitimate creditors offer extensions of credit through telemarketing and require an application or appraisal fee in advance. But legitimate creditors never guarantee that the consumer will get the loan — or even represent that it is likely. Under the federal Telemarketing Sales Rule, a seller or telemarketer who guarantees or represents a high likelihood of your getting a loan or some other extension of credit may not ask for or receive payment until you've received the loan.

You should also avoid credit repair clinics. Companies coast to coast appeal to consumers with poor credit histories, promising to clean up credit reports for a fee. They don't deliver. What's more, they can't deliver: They can't do anything for you that you can't do for yourself.

After you pay them hundreds — or even thousands — of dollars in up-front fees, they can do nothing to improve your credit report. Indeed, many simply vanish with your money. Only time and a conscientious effort to repay your debts will improve your credit report.

If you're thinking about getting help to stabilize your financial situation, be cautious.

- ◆ Find out what services the business provides and what it costs.
- ◆ Check out any company with your local consumer protection office and the Better Business Bureau in the company's location. They may be able to tell you whether other consumers have registered complaints about the business.

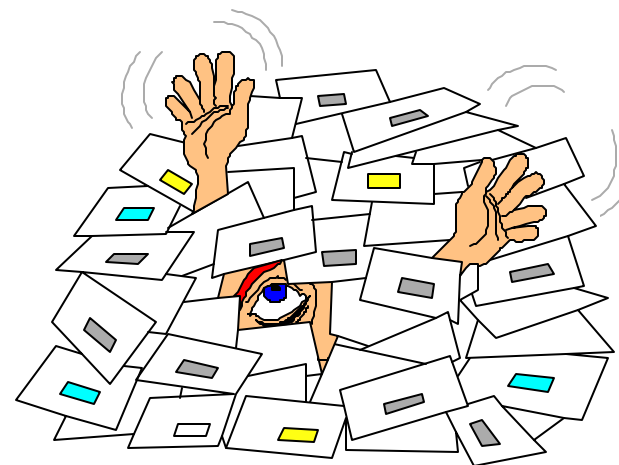


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Buried In Debt?



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TIME-BARRED DEBTS

A new practice has arisen in the debt collection industry. Old, charged off debt is packaged and sold to other financial entities for as little as a penny or less for a dollar of old debt. These debts are old and often barred by the statute of limitations which limits the period of time during which a lawsuit may be filed to collect the debt.

Thus, a time-barred debt is one which can no longer be collected by legal means due to the passage of time, e.g. -- lawsuits, wage garnishment, liens on real estate, etc. These buyers of old debts are "debt collectors" covered by the Fair Debt Collection Practices Act.

FAIR DEBT COLLECTION PRACTICES ACT

The federal law, the Fair Debt Collection Practices Act ("FDCPA"), protects consumers from abusive or harassing, false or misleading, and/or unfair practices of **third party debt collectors or attorneys attempting to collect debts incurred for personal, family, or household purposes.** Business or agricultural debts are not covered by the FDCPA.

The FDCPA does not apply to creditors when they obtained the debt before default. However, the buyers of old debt obtained the obligation after it had fallen into default; therefore, they are debt collectors covered by the FDCPA.

OFFER OF NEW CREDIT CARD

Sometimes the collectors of old debt offer a new credit card if the consumer will transfer part or all of the old debt to the credit card; other times they simply request payment. **These collectors of old debt often fail to inform the consumer that if he or she transfers part or all of the balance of the old debt to the new credit card, acknowledges the old debt, or makes payment toward the old debt, that debt is renewed and the owner of that debt may once again sue and use other legal remedies to collect the debt.**

The collector of old debt may use this technique to trick the consumer into renewing the old debt. This may be an illegal collection practice in violation of the FDCPA.

Courts have held that a lawsuit filed to collect a time-barred debt violates the FDCPA. However, the collector in the above example does not sue, it merely sends a letter asking the consumer to transfer the balance of his or her old debt to a new credit card.

DECEPTIVE AND MISLEADING ASPECT

The deceptive and misleading aspect of this practice is the failure of the collector to inform the consumer that if he or she transfers part or all of the balance of the old debt to the new credit card, acknowledges the old debt, or makes payment toward the old debt, that debt is renewed and the consumer may once again be sued (and use other legal remedies employed) to collect that old debt.

REMEMBER....If you have an old debt which is time-barred and cannot be collected by lawsuits, wage garnishment, liens on real estate, etc., and you transfer the balance, acknowledge the old debt, or pay on the debt, it is renewed and can be collected by the above legal means.

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COLLECTION OF OLD DEBTS



DEPARTMENT OF FINANCIAL INSTITUTIONS

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CONCERNED ABOUT REJECTION?

The joys and anticipation of owning a new home are sometimes crushed when the application for mortgage financing is turned down by the lender. In our economy, it is unfortunate, but some people may go through tough times. When times are hard, the most permanent impact is usually your credit history. A person's credit history is the first thing a lender notices and imperfect credit is usually the reason a loan is denied. If your loan request has been denied, you should understand why the loan was denied and what steps you can take to correct the problem or make sure that it does not happen again in the future. The following information helps you understand the most common reasons for loan denials and corrective measures you can take, and it describes some alternatives that exist especially for low and moderate income home buyers.

POSSIBLE CAUSES FOR REJECTION AND YOUR ALTERNATIVES

Appraised Value Too Low...

One of the factors considered by the lender is the ratio of the loan amount to the sale price or the appraised value of the property, whichever is lower. If the appraisal on the property is substantially lower than the purchase price, the loan-to-value ratio, or LTV, may be higher than the lender will, or can legally, approve. If you have applied for a maximum loan amount, 90 to 95 percent of the purchase price, a low appraisal may make your requested loan too large. Your alternatives in this situation will depend upon the reasons for the low valuation.

If the purchase price is simply higher than the prevailing prices being paid in the general area, you can try to renegotiate the price with the seller down to a level more in line with the market and one which the lender would accept in order to approve your loan. If this is not possible, your only other solution is probably accepting a lower loan amount, assuming you have sufficient funds to cover the additional down payment.

Inadequate Funds...

Based on the financial information and the verification of deposit, the lender may have determined that you do not have enough cash to make a down payment and cover closing costs. Usually, these funds may not come from borrowing. However, a gift from a relative can be used as long as no repayment of the money is expected. Other solutions include getting the seller to take back a second mortgage which would reduce the down

payment requirement (assuming you can still qualify with the additional loan payments), or getting the seller to pay some of the closing costs, such as the origination fees. Finally, you could correct this problem by simply waiting, providing you institute a savings program in the meanwhile.

Insufficient Income...

In assessing your ability to repay the requested loan, lenders look at the amount of your monthly income in relation to your proposed mortgage payments and to all of your monthly debt and installment loan payments. Generally speaking, your mortgage payment should not be more than 28 percent of your monthly gross income, and your total debt, including mortgage payments and other installment payments, should not be more than 36 percent. The percentages are slightly higher for FHA loans. These ratios are only guidelines, but if yours are substantially higher, say 35 percent and 42 percent, they are well beyond industry norms and can cause denial of the loan.

Sometimes, particularly if your credit card record is very good, if you can show that you are already carrying that much housing expense through rent or mortgage payments, you may be able to convince the lender to reconsider. This is an example of why full and accurate disclosure on the loan application works in your favor, even though it may not be obvious at the time.

If your personal circumstances have changed since the submission of the loan application let the loan officer know. An impending salary increase or bonus or new employment, for you or your co-borrower, may improve the financial picture presented on the application. These changes, of course, will need to be documented and verified before the lender will reconsider the loan request.

Too Many Debts...

In some cases, it is not only the amount of debt owed by an applicant that prevents qualifying for the loan. Extensive use of numerous credit cards and revolving accounts with evidence of increasing account balances that are close to the card issuers' debt limits may be enough to kill the application. The primary solution to this problem is to pay off some of the accounts to bring down outstanding obligations, as well as the number of creditors.

Unsatisfactory Credit History...

Nothing can be more damaging to your loan request than a history of poor debt repayment practices. If the credit report shows frequent late charges, past due accounts, judgments, or bankruptcy; chances for approval of the loan are slim. Lenders may stretch their guidelines on debt ratios or income requirements, but have little tolerance for a bad credit record. Even low loan-to-value ratios and debt ratios cannot offset an unsatisfactory credit history.

If your loan is turned down because of a poor credit report, you may request a free copy of the report from the credit report company, which will be identified in a notice from the lender. Examine the credit report carefully to see if it is up to date and accurate. The credit bureau must correct any errors in the report. If there are unsettled disputes over certain accounts, it must also include your side of the argument in the report. Even if the name on the report seems to be you, make sure all of the accounts and references apply to you. Many people have the same name, and improper recording of data occurs.

If the adverse items on the report occurred because of illness, marital problems, job layoff, or other temporary circumstances and were confined to a particular period of time, you should have provided the loan officer with a written explanation at the time the loan application was taken or at some other point in the process. If you didn't do it then, do it now. Assuming there has been sufficient time since the problems occurred for you to regain financial stability and demonstrate prompt payment of your obligations, there is a good chance the loan officer will reconsider the loan request. Many lenders look for one year's clean payment record to offset past credit problems. If the credit report is accurate and you have a questionable credit history, you need to start repaying outstanding balances on time in order to reestablish an acceptable record. It may take time, but there is no alternative when this problem stands between you and owning a home.

ALTERNATIVES FOR LOW AND MODERATE-INCOME HOME BUYERS

Many lenders participate in housing programs designed for low and moderate income home buyers who would not qualify for home loans under standard lending requirements. These programs are sponsored by both governmental and private organizations. If you have a good credit history, or have not established a credit history at all, they may provide a source of financing for your home purchase.

Primary sources of special, low income housing programs include state and local housing finance agencies, nonprofit housing assistance groups, the Department of Housing and Urban Development (HUD), and secondary mortgage market operations such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Your loan officer should be able to tell you how to contact local offices of organizations which work directly with borrowers, or you can usually find them in the phone book in the blue government listings under "Housing."

Assistance for low and moderate income home buyers is not only based on direct subsidies but also on relaxation of standard loan approval requirements. For instance, many low income families spend a greater percentage of their income groups. If you can show that you have consistently handled such higher payments and have a good credit record, the lender might approve the loan based on higher debt ratios.

Some potential home buyers have trouble getting a loan approved because they have not established a credit record. There is nothing adverse on the credit report, but there is no record of prompt repayment of loans or charge accounts. If this is your situation, you may be able to qualify based on what is called a "non-traditional credit history." Using this approach, the lender will depend on utility companies, past and present landlords, and other sources which can verify that you have met a regular payment obligation in a timely, consistent manner. If you think such an approach might help you, and the loan officer has not mentioned it, suggest it to the loan officer.

A REJECTION IS NOT YOUR LAST CHANCE

The fact that a lender has rejected your loan application does not mean that you are denied home ownership forever. As has been discussed earlier, there are positive steps you can take to correct the problem. Some problems may be resolved very quickly while others may take longer, but you can turn around most problem situations. Take the time to determine exactly why your loan request was denied, and then take steps to eliminate the cause of rejection.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
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CREDIT PROBLEMS & MORTGAGE LOANS



Credit Problems Have You Out on a Limb??

DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880



DEBT AND DEBT COLLECTORS

If you use credit cards, owe money on a personal loan, or are paying on a home mortgage, you are a "debtor." As a debtor you are expected to meet the terms of your contract and make your payments on time. If you fall behind in repaying your creditors, or an error is made on your account, your creditor may turn your account over to a "debt collector."

FALLACIES

Fallacies regarding debts and debt collectors or collection agencies are:

- ◆ That creditors are unable to or are forbidden by law from turning accounts over to a collection agency. This is simply not true. Debts arising out of virtually all transactions can and could be turned over to collection agencies for collection efforts.
- ◆ That if a person is making any effort at paying a debt, it cannot be turned over to a collection agency nor can a lawsuit be filed. Again, this is not true. A creditor is entitled to be paid according to the terms of the contract and has every right to resort to collection agencies or lawsuits in order to collect, if necessary.
- ◆ That the creditor must comply with the Federal Fair Debt Collection Practices Act in collecting their accounts. The Act does not apply to the creditor or employees of creditors in collecting their own debts in their own names; the act only applies to third party collectors such as collection agencies and attorneys who collect debts on a regular basis.

FEDERAL FAIR DEBT COLLECTION PRACTICES ACT

If your delinquent account has been turned over to a third party collector, the Federal Fair Debt Collection Practices Act requires that debt collectors treat you fairly by prohibiting certain methods of debt collection. The act is designed to curtail unfair, abusive, or outrageous practices and tactics by third party collectors. It does not forbid collection contacts or collection efforts nor curtail legitimate activities.

HOW MAY A DEBT COLLECTOR CONTACT YOU?

A collector may contact you in person, by mail, telephone, telegram, or FAX. However, a debt collector may not contact you at unreasonable times or places, such as before 8 a.m. or after 9 p.m., unless you agree. A debt collector also may not contact you at work if the collector knows that your employer disapproves.

CAN YOU STOP A DEBT COLLECTOR FROM CONTACTING YOU?

You may stop a collector from contacting you by writing a letter to the collection agency telling them to stop. Once the agency receives your letter, they may not contact you again except to say there will be no further contact or to indicate that a certain specific action is about to

take place.

MAY A DEBT COLLECTOR CONTACT ANYONE OTHER THAN YOU CONCERNING YOUR DEBT?

If you have an attorney, the debt collector may not contact any person other than your attorney unless there is no response from the attorney within a reasonable time. If you do not have an attorney, a collector may contact other people, but only to find out where you live and work. Collectors usually are prohibited from contacting such permissible third parties more than once. In most cases, the collector is not permitted to tell anyone other than you and your attorney that you owe money.

WHAT INFORMATION IS THE DEBT COLLECTOR REQUIRED TO TELL YOU ABOUT THE DEBT?

Within five days after you are first contacted, the collector must send you a written notice telling you the amount of money you owe; the name of the creditor to whom you owe the money; and what action to take if you believe you do not owe the money.

WHAT IF I DON'T OWE THE DEBT?

If you dispute the debt in writing within thirty days of the initial contact, collection activities must cease until the debt is verified.

WHAT TYPE OF DEBT COLLECTION PRACTICES ARE PROHIBITED?

Harassment

Debt collectors may not harass, oppress, or abuse any person. **They may not:**

- ◆ use threats of violence or harm to the person, his/her property, or reputation;
- ◆ publish a list of consumers who refuse to pay their debts (except to a credit bureau);
- ◆ use obscene or profane language;
- ◆ repeatedly use the telephone to annoy someone;
- ◆ telephone people without identifying themselves;
- ◆ make anonymous phone calls or charge the debtor for collect calls or telegram fees;
- ◆ advertise your debt.

False statements

Debt collectors may not use any false statements when collecting a debt. **They may not:**

- ◆ falsely imply that you have committed a crime;
- ◆ falsely imply that they are attorneys or government representatives;
- ◆ misrepresent the amount of your debt;
- ◆ indicate that papers being sent to you are legal forms when they're not or indicating papers are not legal forms when they are;
- ◆ state you will be arrested if you do not pay your debt;
- ◆ state they will seize, garnish, attach, or sell your property or wages or that actions such as a law suit will be taken against you, unless the collection agency or creditor intends to do so, and it is legal to do so;
- ◆ give false credit information about you to anyone;
- ◆ send you anything that looks like an official document from a court or government agency when it is not;
- ◆ use a false name.

Unfair practices

Debt collectors may not engage in unfair practices in attempting to collect a debt. For example, **collectors may not:**

- ◆ collect any amount greater than your debt, unless allowed by law;
- ◆ deposit a post-dated check prematurely;
- ◆ take or threaten to take your property unless this can be done legally;
- ◆ contact you by postcard;
- ◆ apply a payment to any debt you believe you do not owe.

The Fair Debt Collection Practices Act is "selfenforcing," meaning there is no agency to enforce the Act.

You can sue a collector in a state or federal court within one year from the date you believe the law was violated. The Act provides for recovery of attorneys fees plus actual and punitive damages and court costs in the event that the consumer prevails up to \$1,000. Class actions are also possible under the Act with damages of the lesser of \$500,000 or 1 percent of net worth.



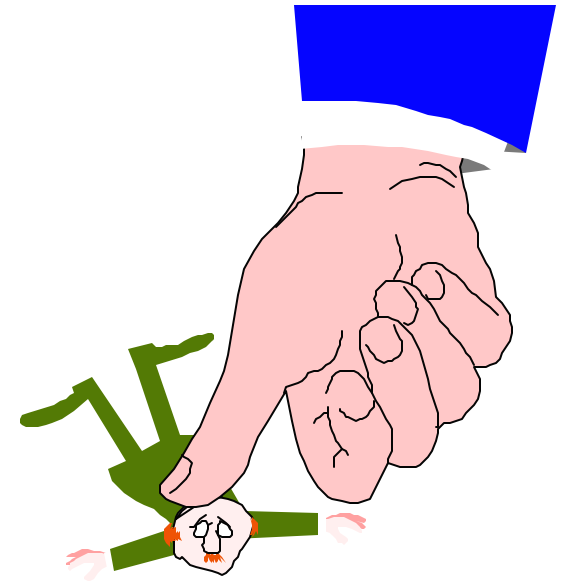
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Debt Collection Problems? [



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WARNING SIGNS OF DEBT

1. Using credit for items that used to be purchased with cash.
2. Getting a loan to pay existing debt.
3. Charging more each month than you make in payments.
4. Making only the minimum required payment.
5. Juggling rent or mortgage and other large bills to pay debts.
6. Rotating bills: paying half one month and half the next.
7. Using a checking account overdraft feature to pay bills.
8. Using credit card advances to pay living expenses.
9. Writing postdated checks.
10. Taking out a new loan before an old one is repaid.
11. Being chronically overdrawn at the bank.
12. Borrowing frequently from friends and relatives to make ends meet.
13. Using savings to pay bills that used to be paid by cash or check.
14. Depending on overtime or moonlighting to make ends meet.
15. Borrowing against life insurance with little chance of repayment.
16. Being at or near maximum credit limits.
17. Being chronically late paying bills.
18. Increasing the percentage of take-home pay spent on consumer debt.
19. Having late penalties assessed on outstanding obligations.
20. Receiving calls or overdue notices from creditors.
21. Receiving threats of repossession or legal action.
22. Accumulating negative information on a credit report.
23. Being denied credit due to negative remarks in a credit report.
24. Hiding creditcard statements and bills from others.
25. Worrying about money and financial distress.

Experiencing any of the above signs? Having trouble paying your bills? Getting past due notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car?

You're not alone. Many people face financial crises at some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming, but often can be overcome. The fact of the matter is that your financial situation doesn't have to go from bad to worse.

If you or someone you know is in financial hot water, consider these options: realistic budgeting, credit counseling from a reputable organization, debt consolidation, or bankruptcy. How do you know which will work best for you? It depends on your level of debt, your level of discipline, and your prospects for the future.

SELF HELP

Developing a Budget: The first step toward taking control of your financial situation is to do a realistic assessment of how much money comes in and how much money you spend. Start by listing your income from all sources. Then, list your "fixed" expenses — those that are the same each month — such as your mortgage payments or your rent, car

payments, or insurance premiums. Next, list the expenses that vary, such as entertainment, recreation, or clothing. Writing down all your expenses — even those that seem insignificant — is a helpful way to track your spending patterns, identify the expenses that are necessary, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance, and education. See our Brochure on What is a Budget?

Your public library has information about budgeting and money management techniques. In addition, many universities, military bases, credit unions, and housing authorities operate nonprofit counseling programs.

Contacting Your Creditors... Contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you.

Dealing with Debt Collectors... The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m., after 9 p.m., or at work if the collector knows that your employer doesn't approve of the calls. Collectors may not harass you, make false statements, or use unfair practices when they try to collect a debt. Debt collectors must honor a written request from you to cease further contact. See our Brochure on Fair Debt Collection.

CREDIT COUNSELING

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service. Your creditors may be willing to accept reduced payments if you enter a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by the counselor. As part of the repayment plan, you may have to agree not to apply for — or use — any additional credit while you're participating in the program.

A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Ask the credit counseling service for an estimate of the time it will take to complete the plan. Some credit counseling services charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time. Some credit counseling services are funded, in part, by contributions from creditors.

While a debt repayment plan can eliminate much of the stress that comes from dealing with creditors and overdue bills, it does not mean you can forget about your debts. You still are responsible for paying any creditors whose debts are not included in the plan. You are responsible for reviewing monthly statements from your creditors to

make sure your payments have been received. If your repayment plan depends on your creditors agreeing to lower or eliminate interest and finance charges, or waive late fees, you are responsible for making sure these concessions are reflected on your statements.

A debt repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments may have been late or missed altogether, or that there are write-offs or other concessions. A demonstrated pattern of timely payments will help you obtain credit in the future. See our Brochure on Choosing a Credit Counselor.

AUTO AND HOME LOANS

Debt repayment plans usually cover unsecured debt. Your auto and home loan, which are considered secured debt, may not be included. You must continue to make payments to these creditors directly.

Most automobile financing agreements allow a creditor to repossess your car any time you're in default. No notice is required. If your car is repossessed, you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If you can't do this, the creditor may sell the car. If you see default approaching, you may be better off selling the car yourself and paying off the debt. You would avoid the added costs of repossession and a negative entry on your credit report. See our Brochure on Vehicle Repossession.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure... Most lenders are willing to work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, though, you may have to pay an additional amount toward the past due total. Other lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt. Ask whether additional fees would be assessed for these changes, and calculate how much they total in the long term.

If you and your lender cannot work out a plan, contact a housing counseling agency. Some agencies limit their counseling services to homeowners with FHA mortgages, but many offer free help to any homeowner who's having trouble making mortgage payments. Call the local office of the Department of Housing and Urban Development or the housing authority in your state, city, or county for help in finding a housing counseling agency near you. See our Brochure on How to Avoid Foreclosure.

DEBT CONSOLIDATION

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Think carefully before taking this on. These loans require your home as collateral. If you can't make the payments — or if the payments are late — you could lose your home.

The costs of these consolidation loans can add up. In addition to interest on the loan, you pay "points." Typically, one point is equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

BANKRUPTCY

Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, making it difficult to acquire credit, buy a home, get life insurance, or sometimes, get a job. However, it is a legal procedure that offers a fresh start for people who can't satisfy their debts.

There are two kinds of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal court. The current filing fee is \$160. Attorney fees are additional.

Chapter 13... Also known as reorganization, Chapter 13 allows debtors to keep property, like a mortgaged house or a car, that they otherwise might lose. Reorganization may allow you to pay off a default during a three-to-five-year period, rather than surrender any property.

Chapter 7... Known as straight bankruptcy, Chapter 7 involves liquidation of all assets that are not exempt in your state. Exempt property may include work-related tools and basic household furnishings. Some of your property may be sold by a court-appointed official or turned over to your creditors. You can file for Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow people to keep certain assets, although exemption amounts vary among states. Note that personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. And unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it. See our Brochures Bankruptcy Facts and How to Avoid Bankruptcy.

DAMAGE CONTROL

Turning to a business that offers help in solving debt problems may seem like a reasonable solution when your bills become unmanageable. Be cautious. Before you do business with any

company, check it out with your local consumer protection agency or the Better Business Bureau in the company's location.

Some businesses that offer debt counseling and reorganization plans may charge high fees and fail to follow through on the services they sell. Others may misrepresent the terms of a debt consolidation loan, failing either to explain certain costs or to mention that you're signing over your home as collateral. Businesses advertising voluntary debt reorganization plans may not explain that the plan is a Chapter 13 bankruptcy, tell you everything that's involved, or help you through what can be a complex and lengthy legal process.

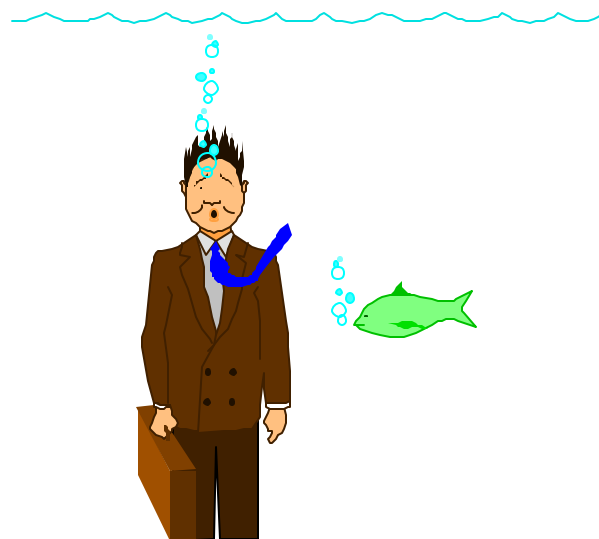
In addition, some companies guarantee you a loan if you pay a fee in advance. The fee may range from \$100 to several hundred dollars. Resist the temptation to follow up on advance-fee loan guarantees. They may be illegal. Many legitimate creditors offer extensions of credit through telemarketing and require an application or appraisal fee in advance. But legitimate creditors never guarantee that the consumer will get the loan — or even represent that it is likely. Under the federal Telemarketing Sales Rule, a seller or telemarketer who guarantees or represents a high likelihood of your getting a loan or some other extension of credit may not ask for or receive payment until you've received the loan.

You should also avoid credit repair clinics. Companies coast to coast appeal to consumers with poor credit histories, promising to clean up credit reports for a fee. They don't deliver. What's more, they can't deliver: They can't do anything for you that you can't do for yourself. After you pay them hundreds — or even thousands — of dollars in up-front fees, they can do nothing to improve your credit report. Indeed, many simply vanish with your money. Only time and a conscientious effort to repay your debts will improve your credit report.

If you're thinking about getting help to stabilize your financial situation, be cautious. Find out what services the business provides and what it costs. Don't rely on oral promises. Get everything in writing. Check out any company with your local consumer protection office and the Better Business Bureau in the company's location. They may be able to tell you whether other consumers have registered complaints about the business.



DEEP IN DEBT?



DEPARTMENT OF FINANCIAL INSTITUTIONS

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ARBITRATION

Companies are turning to mandatory arbitration in hopes of resolving disputes more quickly and less expensively than in the courts. But lawyers and other experts say that for the consumer, arbitration can cost more, with fees that could run into thousands of dollars. Arbitration also permits less evidence-gathering that can help win a case, usually doesn't allow for appeals, and may be less likely to result in a victory.

The growing use of mandatory arbitration clauses is beginning to attract the attention of regulators at the Federal Reserve Board and Federal Trade Commission, who fear that consumers may be losing significant rights without realizing it. The Federal Reserve Board is looking carefully at the use of arbitration clauses in all consumer credit agreements, including mortgages and car loans, to make sure "consumers are not being deprived of their rights."

Clauses Obscure

The problem is that many consumers agree to mandatory arbitration without knowing it. The clauses may be buried in the pile of documents a consumer is asked to sign quickly, such as during a real estate settlement or tacked onto the back of a sales receipt. A growing number of companies - among them banks, computer makers, insurance firms, and car dealers - that are rewriting the fine print of their contracts and sales agreements require that consumers agree, in advance, to give up their right to sue. Such clauses also bar class-action lawsuits.

Many credit card companies, large and small, also are turning to arbitration. First USA Bank, the largest issuer of Visa cards with 58 million customers, began requiring mandatory arbitration in 1997. American Express customers, by using their card after June 1, 1999, will give up their right to sue the company.

What is arbitration?

Arbitration is the referral of a dispute to one or more impartial persons for final and binding determination. It is designed to be private, informal, quick, practical, and economical. Parties can exercise additional control over the arbitration process by adding specific provisions to their contract's arbitration clause

or, when a dispute arises, by modifying certain of the arbitration rules to suit a particular dispute. Stipulations may be made regarding confidentiality of proprietary information, evidence, locale, the number of arbitrators, and issues subject to arbitration, as examples.

The parties may also provide for expedited arbitration procedures, including expedited rendering of the award, if they anticipate a need for hearings to be scheduled on short notice.

An important feature of arbitration is its informality. Under the standard rules, the procedure is relatively simple: legal rules of evidence are not applicable; there is no motion practice or court conference; there is no requirement for transcripts of the proceedings or for written opinions of the arbitrators. Although there is no formal discovery process, the rules allow the arbitrator to require production of relevant documents, the deposition of factual witnesses, and an exchange of reports of expert witnesses. The standard rules are flexible and may be varied by mutual agreement of the parties.

The fact that the arbitrators are trained and have professional expertise is also important. Arbitrators are selected for specific cases because of their knowledge of the subject matter. Based on that experience, arbitrators can render an award grounded on thoughtful and thorough analysis.

Most parties provide for arbitration of disputes because they are seeking a final and binding resolution of their business conflicts. Court intervention and review are limited by applicable state or federal arbitration laws; award enforcement is facilitated by those same laws.

Another important advantage of arbitration is that it is designed to be private, having no public record of the dispute or of the facts presented in resolving the dispute.

What are the benefits of arbitration?

* **Confidentiality.** Arbitration is a private process. There is no public record of the proceedings.

* **Limited Discovery.** Extensive discovery is avoided.

* Arbitrators arrange for **limited exchange of documents, witness lists, and depositions** appropriate to the particular dispute.

* **Speed.** There is no docket or backlog in arbitration. Hearings are scheduled as soon as the parties and the arbitrator have dates available.

* **Expert Neutrals.** The arbitrators have expertise in the subject matter in dispute, as well as training in the arbitration process.

* **Cost Savings.** Because of the limited discovery and informal hearing procedures, as well as the expedited nature of the process, the parties save on legal fees and transactional costs.

* **Preservation of Business Relationships.** In most instances, litigation between professionals and their clients destroys the working relationship. Arbitration is less adversarial and, because of its informal nature, it is more likely that the parties will be able to continue their business relationship.

* Parties may arbitrate disputes either by inserting a future-disputes clause into a contract or by submitting an existing dispute to arbitration.

Cost of Arbitration can Sometimes be Higher

To deter frivolous complaints, the cost of arbitration can sometimes be significantly higher than court fees, making it financially impossible for some consumers to seek relief. However in the case of *Williams v. Aetna Finance* (83 Ohio St. 3d 464; 700 N.E. 2d 859, 11/4/98), the Supreme Court of Ohio struck down a clause which required a consumer to pay large fees simply to advance a case to arbitration. Citing a 1993 decision against ITT Finance Co., the court stated that "[i]n a dispute over a loan of \$2,000 it would scarcely make sense to spend a minimum of \$850 just to obtain a participatory hearing." The *Williams* case involved a "pitchman" who was paid referral fees to bring homeowners to a finance company for expensive home equity loans.



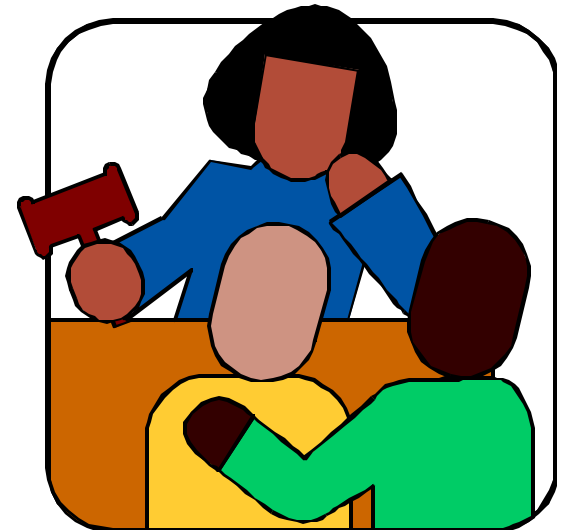
The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



Right to Sue Diminishing



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